

# MANAGEMENT ACCOMPLISHMENTS AND CHALLENGES

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# MANAGEMENT ACCOMPLISHMENTS AND CHALLENGES

EPA senior managers are aware of the complex management challenges the Agency must address to achieve program results, and they work diligently to identify strategies to maintain integrity and strengthen the public's confidence in the Agency. The President's Management Agenda, an initiative to improve management, performance, and accountability government-wide, has placed additional emphasis on effective program management. In FY 2002 the Agency accelerated efforts to address its most serious management problems and corrected all four of its material weaknesses as well as a number of its other management challenges—deficiencies in program policies, guidance, or procedures that might impair the Agency's ability to achieve its mission.

The Agency uses a system of internal program reviews, independent reviews, and audits by the General Accounting Office (GAO) and EPA's Office of the Inspector General (OIG); program evaluations; and performance measurements to ensure that program activities are effectively carried out in accordance with applicable laws and sound management policy and provide reasonable assurance that Agency resources are protected against fraud, waste, abuse, and mismanagement. As a result EPA is quick to identify and develop strategies to address integrity weaknesses and major management challenges.

For some management problems the Agency has put annual performance goals in place to track progress. Three of the four material weaknesses corrected in FY 2002 and six of the nine additional management challenges have associated Government Performance and Results Act (GPRA) annual performance goals and measures. Although EPA does not have specific GPRA goals or measures for all integrity weaknesses and major management challenges, the Agency's senior leadership monitors all problems closely as discussed later in this section.

Section III provides a comprehensive discussion of EPA's management and

performance challenges and its strategy to resolve these issues. (The most significant of these and their relevance to the achievement of the Agency's mission are also addressed in the Section II goal chapters.) This section also meets the reporting requirements of the Federal Managers Financial Integrity Act (Integrity Act);<sup>2</sup> the Inspector General Act of 1978, as amended;<sup>3</sup> and the Reports Consolidation Act of 2000,<sup>4</sup> as discussed below.

## FISCAL YEAR 2002 ANNUAL ASSURANCE STATEMENT

I am pleased to give an unqualified statement of assurance that the Agency's programs and resources are protected from fraud, waste, and mismanagement, based on EPA's annual self-assessments of the Agency's internal controls, management, and financial control systems.

Christine Todd Whitman Administrator

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Under the Integrity Act all federal agencies must submit an annual Integrity Act Report to the President and Congress and provide reasonable assurance that their policies, procedures, and guidance are adequate to support the achievement of their intended mission, goals, and objectives. Agencies also must report material weaknesses—those deficiencies found to impair achievement of the agencies' missions—and identify corrective action strategies that have been developed and are under way to remedy the problems. EPA senior managers periodically report to the Administrator on progress to address material weaknesses and other less serious but important problems.

The Inspector General Act of 1978,<sup>5</sup> as amended, requires federal agencies to report to Congress twice a year on the status of efforts to

carry out corrective actions and reach final action on OIG audits. The Reports Consolidation Act of 2000<sup>6</sup> gives agencies the authority to consolidate various management reports (including management's report on audits) into a single annual report. EPA managers have greatly improved the timeliness and effectiveness of their audit management practices, and since FY 1999 they have decreased by 58 percent the number of audits without final action 1 year after the management decision (from 72 in FY 1999 to 23 in FY 2002).<sup>7</sup>

As required by the Reports Consolidation Act of 2000, OIG's list of top management challenges facing the Agency, along with its assessment of EPA's progress in addressing these challenges, is included at the end of this section. OIG tiered the challenges to reflect its consideration of their significance and severity of impact on the Agency's mission. The Agency's response to the OIG statement is included as part of the discussion of corrective action strategies for integrity weaknesses and major management challenges.

#### FY 2002 INTEGRITY ACT REPORT

Since 1982 EPA has identified and reported 49 material weaknesses and 18 financial nonconformances.8 By the end of FY 2002 the Agency had corrected all of these material weaknesses and financial nonconformances, closing the last four material weaknesses during FY 2002. EPA's record in correcting its management challenges has steadily improved over the past decade, and, for the first time in the 20-year history of the Integrity Act, EPA has no material weaknesses. The progress in correcting material weaknesses and financial nonconformances exemplifies EPA's strong commitment to improving integrity and accountability in all programs, organizations, and functions.

After 20 Years EPA Sets Record With No Material Weakness



The four material weaknesses corrected in FY 2002 are National Pollutant Discharge Elimination System Permits, Construction Grants Closeout, Information System Security, and Backlog of Title VI (Civil Rights Act of 1964)

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Discrimination Complaints. The Agency's corrective action strategy and determination that these weaknesses had been resolved are discussed below.

# **Material Weaknesses Corrected During FY 2002**

1. Reduce the Backlog of National Pollutant Discharge Elimination System (NPDES)
Permits<sup>9</sup> (Goal 2): Based on Permit Compliance System (PCS) data in November 1998, 26 percent of permits for major facilities had not been reissued following expiration, and 48 percent of permits for minor facilities had not been reissued. In 1999 the Agency estimated that the backlog in EPA-issued major permits had tripled over the past 10 years; likewise, the

backlog in state-issued permits had doubled over that time. Expired NPDES permits might not reflect the most recent applicable effluent guidelines, water quality standards, or Total Maximum Daily Loads, posing a threat to the environment. Without timely issuance of high-quality permits, necessary improvements in water quality could be delayed. (FY 1998–2002 OIG management challenge—tier 2 management challenge in 9/6/02 OIG memo to the Administrator on EPA's Key Management Challenges,

declared a material weakness FY 1998.)

Corrective Action Strategy: Since the Agency identified this weakness in 1998, it has achieved 56 percent of targeted reduction in the backlog

of major point source permits and achieved 58 percent of targeted reduction in the backlog for minor point source permits. EPA's comprehensive strategy for improving the NPDES permit program<sup>10</sup> has resulted in noteworthy progress, and it establishes a management control framework for continued improvement. EPA is deploying guidance and tools designed to help regions and states prioritize permits that have the greatest environmental impact and to automate the permit writing process. 11 EPA believes it has addressed the materiality of this issue and put the management controls in place for continued progress. EPA is supporting a number of efforts to strengthen the NPDES Program: (1) two pilot projects with states to develop systems to address permits on a watershed basis, (2) an EPA/state project to identify permit streamlining opportunities, (3) expanded use of general permits to address increases in the permitting universe, and (4) ongoing permit quality reviews. (Also see OIG's Key Management Challenges.)

### 2. Construction Grants Closeout (Goal 2):

Without timely closeouts of construction grants, millions of dollars in potentially ineligible program costs cannot be recovered for use in other high-priority state clean water projects. (FY 1992 OMB candidate material weakness, declared an Agency weakness FY 1992, elevated to a material weakness FY 1996.)

Corrective Action Strategy: Since 1990 the Agency has worked to accelerate the completion and closeout of construction grants by annually assessing the remaining workload in each region, identifying the bottlenecks, and agreeing on a closeout plan and follow-up actions to bring the program to completion. Forty-seven states and 8 regions have met the "success" criteria of no more than 5 open grants per state and 10 open grants per region. 12 The Agency-wide goal for correcting this weakness is 100 open grants. EPA has exceeded this goal with 84 open grants. The remaining open grants are concentrated in a few states and will be closed out once the grantees have exhausted all appeal mechanisms. EPA will monitor the open grants closely through mechanisms such as annual state work plans and closeout strategies.

#### 3. Information System Security (Goal 7):

EPA needs a centralized security program with strong oversight processes to adequately address risks and ensure that valuable information technology resources and environmental data are secure. (FY 1997–2002 OIG major management challenge—tier 2 management challenge in 9/6/02 OIG memo to the Administrator on EPA's Key Management Challenges, FY 2001 GAO major management challenge, declared a material weakness FY 1997 and an expanded material weakness FY 2000.)

Corrective Action Strategy: EPA has made substantial progress in keeping pace with the evolving challenges of information security. In FY 2002 the Agency developed and began implementing a comprehensive strategy to systematically address security-related deficiencies in accordance with the Government Information Security Reform Act. 13 This strategy included initiating annual security risk assessments for the Agency's systems, as well as instituting regular monitoring and reporting of system owners' follow-up actions in response to the assessments. EPA has completed risk assessments for its critical applications and systems and has implemented regular evaluations of its security network and data, network intrusion detection and monitoring controls, and formal security plan reviews. Recent reviews conducted in FY 2002 show that EPA has an improved information security program that assesses, identifies, and mitigates risks to the Agency's data and systems. 14 Recent network penetration tests validated that controls successfully deter penetration attempts. To improve on this performance, the Agency plans to enhance its ability to monitor activities at the subnetwork level to ensure deeper protection and guard against possible unauthorized access or internal exploitation.

EPA plans to sustain improvements through consistent security control implementation and ongoing evaluation and regular testing to ensure that the policies and procedures are effective. The Agency's validation strategy<sup>15</sup> employs a variety of methods, processes, and mechanisms to ensure EPA's information security meets the criteria of the best industry practices and

federal requirements. Validation methods include (1) comprehensive risk assessments of major applications and general support systems using the security self-assessment methodology published by the National Institute of Standards and Technology, <sup>16</sup> (2) implementation of central automated monitoring for assessing compliance with security standards, and (3) internal and external network penetration testing. (Also see OIG's *Key Management Challenges*.)

# 4. Backlog of Title VI (Civil Rights Act of 1964)<sup>17</sup> Discrimination Complaints

**(Goal 10):** Title VI prohibits discrimination on the basis of race, color, or national origin by any entity that receives federal financial assistance. By June 2001 the number of Title VI administrative complaints that required an investigation or a jurisdictional determination by EPA had reached 66. Regulations at 40 CFR Part 7<sup>18</sup> require EPA to process complaints of discrimination filed under the Civil Rights Act

of 1964 within 180 days after acceptance of the complaint. EPA's program to investigate Title VI complaints did not meet regulatory deadlines for processing and investigating complaints. (Declared a material weakness in FY 2000.)

Corrective Action Strategy: On June 1, 2001, the Administrator announced a comprehensive strategy for addressing the backlog and improving the Title VI program within 2 years. EPA formed a 13-member interoffice Task Force to eliminate the backlog. 19 The Office of Civil Rights, which leads the Task Force, also initiated new policies and procedures to prevent increases in the backlog. The backlog of 66 cases has been reduced by half. All remaining cases have been analyzed and preliminary determinations made as to how they should be processed. There are no new cases in backlog status. EPA expects to eliminate the backlog by July 2003 and validate the effectiveness of management controls to ensure timely resolution of new cases.

## **MAJOR MANAGEMENT CHALLENGES**

Following are brief descriptions and summaries of activities planned in response to management challenges identified by GAO, OMB, OIG, or EPA itself. The Agency will continue to use the tools available under GPRA and other management statutes to assist in addressing these issues. Six of EPA's management challenges are being addressed as internal Agency weaknesses for which the Agency develops specific and measurable corrective actions and reports on progress to the Administrator.

# 1. Protecting Critical Infrastructure from Non-traditional Attacks (Cross-Goal): EPA

has the responsibility of helping to secure the Nation's drinking and wastewater infrastructure, of promoting security in the chemical industry and hazardous materials sector, and of responding to and recovering from biological, chemical, certain radiological, and other terrorist attacks. To achieve its goals, the Agency needs to apply technical, organizational, resource, training, and communication assets to complex issues with unprecedented dispatch. Success

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requires simultaneous attention to questions of threat, capabilities and deficiencies, preparedness, management and oversight, and efficiency and effectiveness. (FY 2002 OIG major management challenge—tier 1 management challenge in 9/6/02 OIG memo to the Administrator on EPA's Key Management Challenges.)

Corrective Action Strategy: EPA has taken measures to respond to terrorist incidents and is taking steps to better prepare for, and respond to, future incidents based on lessons learned. The Agency carried out its mission and accomplished a remarkable achievement in responding to three national incidents during the same time period in response to the attacks on the World Trade Center and the Pentagon, and the cleanup of anthrax contamination in the Capitol Complex and other facilities around the country. One of these tasks, cleaning up anthrax contamination from the Capitol Hill Complex, defied the customary thinking that the cleanup of an anthrax-contaminated building was impossible.

Since the terrorist attacks of September 11, 2001, the federal government has taken action to prepare and protect the public against terrorist threats. The President created the Office of Homeland Security (OHS) and recently signed legislation creating a cabinet-level Department of Homeland Security. The July 2002 *National Strategy for Homeland Security*<sup>20</sup> designated EPA as the lead agency for protecting critical drinking and wastewater infrastructure and promoting security in the chemical industry and hazardous materials sectors. The November 2002 Reorganization Plan for the Department of Homeland Security also identifies some areas where EPA will coordinate efforts with the Department.

In testimony before the Senate Committee on Environment and Public Works on September 24, 2002,<sup>21</sup> the EPA Administrator described in detail the aggressive and effective actions EPA has taken to build on existing strengths to meet new security challenges. EPA worked to define its role in homeland security and to make decisions regarding where the Agency should allocate existing and new resources, authority, and personnel to ensure the safety of human health and the environment. The Agency conducted two major reviews of lessons learned, one relating to the incidents of September 11 and the other related to EPA's anthrax response. EPA used objective outside sources to conduct extensive interviews with Agency personnel, from front line staff to senior managers, to examine what EPA had learned from its response activities.

EPA chairs the interagency National Response Team (NRT), which has an excellent track record for federal-state coordination. In April 2002 the OHS asked the NRT to be an OHS work group providing interagency policy coordination assistance on terrorist incident preparedness and response. The NRT also completed anthrax and World Trade Center and Pentagon lessons learned documents for use by member agencies, and developed anthrax cleanup technical assistance documents for use by planners and responders at all levels of government.<sup>22</sup>

EPA aggressively developed vulnerability assessment tools for drinking water and

wastewater utilities, funded vulnerability assessments at the Nation's 424 largest drinking water facilities serving nearly half the population, sped up establishment of a secure Information Sharing and Analysis Center for the water sector, provided threat information to utilities as required under Public Law 107-188,<sup>23</sup> and initiated high-priority water security research projects. The Agency developed EPA's Threat Warning System and Protective Measures, including facility protective measures, emergency preparedness and response activities, and protection of facilities in the water sectors and chemical industry. EPA implemented this system on September 10, 2002, when the country went to "orange" threat status, and is now revising the system in response to lessons learned from this first implementation. Implementation has included providing alerts and protective information to members of the water sectors and chemical industry.

The lessons learned reports<sup>24</sup> have generally concluded that EPA responded successfully; however, it can do better. In October 2002 the Administrator announced EPA's Strategic Plan for Homeland Security,<sup>25</sup> which supports the President's National Strategy for Homeland Security<sup>26</sup> and the efforts to be undertaken by the new Department of Homeland Security. The plan serves as a blueprint on how to enhance EPA's ability to meet its homeland security responsibilities. The activities and initiatives in the plan represent an enhancement of EPA's capabilities to detect, prepare for, prevent, respond to, and recover from terrorist incidents. As the federal government continues to address the issue of protecting the Nation, the plan will continue to be revised and improved. Some of the activities identified in the plan might eventually be carried out by the Department of Homeland Security or other agencies. The Federal Homeland Security Advisor commended EPA for its Homeland Security Strategic Plan, noting that it can serve as a model for other departments and agencies.

In context of the urgency and national significance of addressing these infrastructure issues, the Agency's activities during the past year have revealed significant management

strengths. (Also see OIG's Key Management Challenges.)

2. Working Relationship with the States (Cross-Goal):<sup>27</sup> The National Environmental Performance Partnership System (NEPPS) established EPA-state working partnerships to accomplish complex environmental issues with scarce resources. One of the primary tools for implementing NEPPS, performance partnership grants (PPGs), allows states and tribes to combine multiple EPA grants into one. In implementing the NEPPS program, including PPGs, the following are required to fully integrate NEPPS principles: leadership providing a clear direction and expectations, training and guidance, and goals and related performance measures to monitor and measure progress on achieving better environmental results. (FY 1999-2001 GAO major management challenge; FY 2000–2002 OIG major management challenge—tier 2 management challenge in 9/6/02 OIG memo to the Administrator on EPA's Key Management Challenges.)

Corrective Action Strategy: EPA works closely with states, tribes, other federal agencies, and other stakeholders to protect public health and the environment. Under NEPPS, the Agency committed to long-term collaboration with state agencies to improve EPA and state management of national environmental programs. NEPPS is a framework to build a result-based management system, focus on joint planning and priority setting, and use environmental indicators and outcome measures for accountability. Although EPA and states recognize that existing implementation approaches are no longer efficient and effective, they have not yet agreed on how states will have flexibility while being accountable for environmental results. For several years, EPA and the states have been implementing NEPPS with mixed results. As a result of an ongoing program evaluation conducted jointly with the states, EPA is developing an implementation plan that will address the implementation issues identified.

Through NEPPS, the Agency is improving EPA-state partnerships by working with the

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states to establish priorities, improve performance measures, and promote results-based management under the Performance Partnership System. The Agency is also developing tools that state and EPA NEPPS negotiators can use to clarify the appropriate performance expectations. In addition EPA and the Environmental Council of the States (ECOS) have an active joint work group to address continuing implementation issues and work to identify and remove remaining barriers to effective implementation of the Performance Partnership System.

In FY 2002 the Agency developed issue papers on performance partnerships that were discussed with Agency senior leaders, ECOS, and the performance partnership practitioner community. The Agency integrated NEPPS principles in its planning, budgeting, and accountability systems and has included NEPPS Core Performance Measures in EPA's Annual Report. EPA continued development of a NEPPS primer on policies and practices, revised its Web site to provide historical information and best management practices, organized a national training conference, and continued biannual reporting on the states' use and application of PPGs.<sup>28</sup>

In FY 2003 EPA plans to meet with the states to identify a set of national, state, and regional priorities, in the context of NEPPS information from environmental indicators and performance work. The results will be incorporated into EPA's national strategic planning, budgeting, and accountability process in FY 2004. EPA and the states will also jointly review roles, responsibilities, and resources to improve efficiency and environmental impact. EPA will implement a communication strategy on the successes and benefits of the Performance Partnership System and recognize those who have made improvements. The Agency will continue a joint annual evaluation of performance partnership agreements and review recommendations from the PPG Task Force on mitigating conflicts between performance partnership principles and categorical grants guidance. (Also see OIG's Key Management Challenges.)

#### 3. Management of Biosolids (Cross-Goal):

EPA needs to implement a national biosolids program and establish a strong enforcement program to meet the Clean Water Act (CWA) requirements to reduce environmental risks and maximize the beneficial use of sewage sludge.<sup>29</sup> (FY 2002 tier 2 management challenge in 9/6/02 OIG memo to the Administrator.)

Corrective Action Strategy: EPA continues to meet its statutory obligations under the CWA pertaining to sewage sludge. Although there has been concern as to the adequacy of the sewage sludge rule, and there is a need for some additional scientific research in this area, the inclusive process EPA has launched will adequately address those concerns. The Agency requested that the National Research Council (NRC) make a second evaluation of the biosolids program, specifically of the scientific basis supporting the CWA Part 503 rule.<sup>30</sup> The second NRC report, issued in July 2002,<sup>31</sup> concluded that there was no documented scientific evidence that EPA's Part 503 sewage sludge standards failed to protect public health. The NRC stated that additional scientific work is needed to reduce persistent uncertainty about the potential for adverse human health effects from exposure to biosolids that are applied to the land. The Agency has set into motion a process for developing a response to the NRC's recommendations and the OIG's concerns. A committee is being established to provide an open process, including seeking public comments on Agency plans. Following receipt of these comments, EPA will publicly announce its final plan for taking actions. The Agency intends to complete this process by the end of 2003. As part of the process, the Agency will seek public comment on its proposed determination on whether to regulate additional pollutants in biosolids as required by section 405(d)(20)(C) of the CWA.<sup>32</sup> EPA also will publicly announce its final decision on regulating additional pollutants under Part 503.

In the meantime, the Agency will continue to communicate information on applying biosolids. The information will include a brief summary of additional research that is now being conducted to reduce public uncertainty, and that, if needed, will result in the modification of the biosolids regulation or land application practices. EPA has taken actions to address biosolids violations and will continue to address instances where biosolids pose an immediate endangerment to human health or the environment. Regions and states have the flexibility and responsibility to address situations where compliance assistance and enforcement actions to address biosolids are appropriate and necessary. EPA also developed a Biosolids Data Management System (BDMS).33 Although the Agency has not undertaken or completed all of the specific studies described in the preamble to Part 503, it has undertaken a variety of studies associated with biosolids recycling that it believes to be very relevant today and is undertaking new studies. In addition, studies by others outside the Agency have helped to resolve many of the issues of concern discussed in the preamble. (Also see OIG's Key Management Challenges.)

## 4. Challenges in Addressing Air Toxics Program Phase 1 and Phase 2 Goals (Goal 1):

Because of budget constraints and new guidelines established for processing regulation packages, there have been delays in completing the 10-year Maximum Achievable Control Technology (MACT) standards and possible delays in the residual risk program. (FY 2001 Agency weakness; FY 2002 OIG tier 1 management challenge in 9/6/02 OIG memo to the Administrator on EPA's Key Management Challenges.)

Corrective Action Strategy: EPA is developing a comprehensive approach to air toxics and is continuing to shift the emphasis from a technology-based to a more risk-based program using the National Air Toxics Assessment<sup>34</sup> (NATA) to help set programs and guide priorities. EPA published the NATA 1996 national-scale assessment in FY 2002, which took into account peer review comments from the Science Advisory Board (SAB).

EPA has made significant progress in reducing air toxics. Since 1990 air toxics have been reduced by over 1.5 million tons per year, a 34 percent reduction. Most of those

reductions are from major industrial sources and mobile sources. There will be even greater reductions as EPA completes the MACT program (technology-based standards for major stationary sources), implements mobile source standards (including non-road), and sets standards for area sources of air toxics. EPA has worked successfully to integrate the air toxics program, addressing risks from all sources of toxics—major, area, mobile, and indoor sources.

Regarding the technology-based program, the Clean Air Act requires EPA to set standards for all major sources of air toxics. This is an ambitious requirement, and EPA has already set 63 standards covering 105 source categories. While EPA is behind schedule on the remaining sources, it has now proposed all of the remaining 34 standards (covering 64 source categories) and will promulgate final standards for these sources no later than February 2004.<sup>35</sup>

After implementing the technology-based program, EPA is to evaluate the remaining risks at these sources. EPA has begun this "residual risk" program and is currently assessing more than 1,000 sources in 20 different source categories. While the statutory requirements are extensive, EPA is working to streamline the program and focus on the most important sources of air toxics by updating health assessments on critical pollutants, using riskassessment methodologies, and working cooperatively with industry to collect the best available data. The Agency is also developing exemption options for low-risk facilities and identifying economically feasible risk reduction options for sources with high risk impacts.

Finally, EPA has been supporting states' toxics monitoring since 1987. EPA realized, however, the need for a consistent, national monitoring network to provide more information on ambient levels of toxics and overall trends. The SAB identified protocols for the monitoring program in March 2000. EPA also developed a strategy with state partners and has now initiated a 13-city national trends network for toxics. The final network will include 30 sites. EPA is also funding regional networks, which will include some mobile platforms, allowing measurement

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of some potential hot spots. Including all the state monitors, there are about 390 sites monitoring year-round and over 2,000 with some form of monitoring. (Also see OIG's *Key Management Challenges.*)

# 5. Information Resources Management (IRM) and Data Quality and Environmental and Performance Information Management

(Goal 7): Consistent, complete, and current data are needed to support full and effective information sharing, environmental monitoring, and enforcement. If EPA and the states apply different data definitions and sometimes collect and input different data, the result can be reporting of inconsistent, incomplete, or obsolete data. EPA needs to continue developing and implementing its information management strategy to address Agency information management challenges such as data gaps. (FY 1998–2002 GAO major management challenge; FY 1998-2002 OIG major management challenge—tier 1 management challenge in 9/6/02 OIG memo to the Administrator on EPA's Key Management Challenges combining previous management challenge on IRM with Data Quality management challenge; IRM data management declared an Agency weakness FY 1994; scope of weakness expanded FY 2000, and target correction date extended to FY 2004.)

Corrective Action Strategy: EPA is working in partnership with the states to improve the management, comprehensiveness, consistency and reliability, and accuracy of its data. Better data management will reduce inefficiencies and support better assessment of environmental results and Agency priority-setting to protect human health and the environment. EPA has carried out a number of actions to improve data management practices. The Agency developed and approved six key environmental data standards,<sup>36</sup> and in FY 2002 it completed four data standards while initiating work on additional standards. Meanwhile, EPA is working with states and EPA system and program managers to implement these data standards in major environmental systems. The Agency instituted an Integrated Error Correction Process<sup>37</sup> and drafted a Data and Information Quality Strategic

Plan to present recommendations for improving the quality and management of currently collected data. The Agency completed guidance for the EPA Web site and is developing guidance on administrative control designations. EPA is also revising its IRM Strategic Plan and developing an Enterprise Architecture to address the integration and management of environmental data. Other corrective actions under way include developing a Strategic Information Plan for addressing data gaps, developing an Agency data architecture, developing and putting in place appropriate data management policies and procedures, and improving data collection processes through the use of the Central Data Exchange. EPA expects to release for public discussion this year the State of the Environment Report on environmental indicators. The Agency will continue efforts to identify data needed to manage programs and work with partners to provide timely, accurate, and consistent data. (Also see OIG's Key Management Challenges.)

## 6. Linking Mission and Management (Goal 10):

EPA works with its regional offices and state and federal partners to develop appropriate outcome measures and accounting systems that track environmental and human health results across the Agency's goals. This information must then become an integral part of senior management's decision making process. (OIG major management challenge for FY 2002—tier 1 management challenge in 9/6/02 OIG memo to the Administrator on EPA's Key Management Challenges combines FY 2001 management challenges on accountability and managerial accounting.)

Corrective Action Strategy: EPA has long focused on improving the way it manages for results and uses cost and performance information in decision making. The Agency has made substantial progress and achieved the following results in FY 2002: (1) an increased focus on performance and results as key criteria for developing EPA's FY 2004 budget, (2) the Administrator's decision to adopt fewer, more outcome-oriented goals in EPA's revised Strategic Plan, and (3) successful efforts to establish Business Objects as the Agency's standard

financial reporting tool and expand the Financial Data Warehouse to make more information available to managers. EPA has been recognized for its achievements in integrating budget and performance.<sup>38</sup> The OIG has identified important improvement opportunities, and in FY 2003 EPA expects to build on progress made as it completes the revision of its Strategic Plan, implements the recommendations of the Managing for Improved Results Steering Group, and adopts business intelligence tools Agency-wide. In FY 2003 EPA will continue to enhance its cost accounting capabilities to strengthen the linkages between resources and performance in Agency program offices. (Also see OIG's Key Management Challenges.)

## 7. Employee Competencies/Human Capital

(Goal 10): To place the right people with the appropriate skills where they are needed, EPA must make human capital management an integral part of its strategic and programmatic approaches to accomplishing its mission. The Agency needs to determine how human capital actions can best help achieve goals, identify milestones for key actions, and establish resultsoriented performance measures for human capital initiatives. With its Human Capital Strategic Plan in place, the Agency has a blueprint for the initial and longer-term steps needed to begin addressing this weakness.<sup>39</sup> (FY 1998–2002 OIG major management challenge—tier 1 management challenge in 9/6/02 OIG memo to the Administrator on EPA's Key Management Challenges, FY 2000–2002 GAO major management challenge, declared an internal Agency weakness FY 2000.)

Corrective Action Strategy: EPA has made significant progress toward addressing this weakness and meeting the objectives of the President's Management Agenda initiative on Strategic Management of Human Capital. Ongoing efforts include aligning the Agency's human capital planning activities with its strategic planning and budgeting processes, as well as continuing to implement EPA's Human Capital Strategic Plan. The Agency is developing a Workforce Planning System that will link competencies to mission needs along core

business lines. In addition, EPA's Workforce Development Strategy (WDS) is a comprehensive program that focuses on training and development at all levels of the organization. As part of the WDS, the Agency developed and implemented a number of training programs: the New Skills and New Options Program for administrative staff with electronic learning accounts available to eligible employees; the Mid-Level Development Program, which introduces the SES core competencies to most EPA employees; and a management development program that includes supervisory and management training. In addition, EPA selected 51 participants for an SES Candidate Development Program. The Agency has established goal teams to set appropriate baselines to track advances in measuring results and programmatic benefits. The Agency is also working toward better alignment of its human capital strategy with annual performance goals/ measures, strategic sub-objectives, and Agency activities. This effort will help the Agency develop human capital measures and set targets for environmental and programmatic outcomes and track its costs and economic impacts. (Also see OIG's Key Management Challenges.)

8. Improved Management of Assistance **Agreements (Goal 10):** EPA needs to improve overall grants management by implementing a competitive award policy and process and by improving prioritization, oversight, and enforcement procedures. EPA needs to address problems repeatedly identified in audit reports concerning EPA's use of assistance agreements to accomplish its mission. (FY 2002 OMB and OIG candidate material weakness; FY 2000-2002 OIG major management challenge—tier 1 management challenge in 9/6/02 OIG memo to the Administrator on EPA's Key Management Challenges; grants closeout and oversight of assistance agreements was declared a material weakness in FY 1996, reported corrected in FY 1999 and redesignated as an internal Agency weakness; grants closeout was corrected in FY 2000; and improved management of assistance agreements was declared an internal Agency weakness in FY 2000.)

Corrective Action Strategy: During the past year the Agency has made significant progress

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in strengthening its grants management. OMB recognized this progress in its most recent Executive Branch Scorecard. <sup>40</sup> A major premise underlying the OIG's recommendation and OMB's concerns was the absence of a policy for competing discretionary grant funds. EPA has squarely addressed that issue by developing a new grant competition policy, which went into effect October 1, 2002.

EPA also continues to make progress in improving post-award management, as evidenced by the high quality of the 2002 post-award monitoring plans, the corrective actions taken by headquarters and regional offices in response to validation reviews, and the development of a new consolidated post-award monitoring policy.<sup>41</sup>

EPA's strategies to improve grants management are solidly based on the risk involved. Each fiscal year, EPA awards approximately \$3 billion in grants to support the environmental programs of state and local governments. 42 These grants constitute more than 87 percent of the grant funds awarded by EPA annually. The concerns raised by the OIG do not demonstrate systemic mismanagement of these funds. This means that the primary area of risk involves other categories of grants that receive relatively small amounts of money (e.g., grants to nonprofit organizations, which receive about 6 percent of EPA's grant dollars each fiscal year). EPA is appropriately managing that risk by making cost-effective improvements to its already extensive set of management controls, including initiatives on post-award monitoring, procurement oversight and environmental results, recipient training and technical assistance, and, most important, strategic planning. These enhancements ensure that the deficiencies the OIG identified do not significantly impair the accomplishment of the Agency's mission, making a material weakness designation unwarranted.

EPA believes that the actions taken in FY 2002 to address the existing Agency weakness have strengthened EPA's grants management program and does not recommend raising grants management to a material weakness. Neverthe-

less, recent EPA validation reviews show that further improvement is needed, a finding supported by OIG audit reports. The Agency will carry the existing Agency weakness into FY 2004 while the long-term strategic plan is implemented and further improvements are made and validated.

9. Innovative Regulatory Programs (Goal 10):

EPA needs the flexibility to use innovative approaches to address complex and intractable environmental problems that warrant new and more cost-effective approaches. In the absence of specific legislative changes that would provide the authority for EPA to allow states and others to use innovative approaches, the Agency needs to closely monitor the new approaches to ensure they are more effective than the traditional approaches. (FY 2002 GAO major management challenge.)

Corrective Action Strategy: EPA continues initiatives to fully support and manage innovations and address concerns about flexibility. In April 2002 the EPA Administrator released a new innovation strategy that had resulted from an intensive 9-month task force review of EPA's innovation efforts. The strategy's goals are being implemented through program and regional commitments to specific actions that

have been documented and are being tracked by the Agency's Innovation Action Council. EPA, states, localities, industry, and nongovernmental organizations have been developing, testing, and implementing innovative approaches for more than a decade. These efforts have produced a number of successful innovations, such as the Brownfields revitalization program.

As is always the case when new approaches or alternative ways are tried, some projects did not meet expectations. EPA has taken significant, concrete steps to establish Agency-wide controls that result in better priority setting, planning, and monitoring of results. The Agency has several ongoing efforts to evaluate and learn from particular innovations that represent the best candidates for broader application. EPA has nearly completed an effort to evaluate pilot projects that seek to streamline pollution prevention considerations and infuse them into air permits, and the Agency is beginning to evaluate several innovative approaches to manage hazardous wastes in university labs. The new State Innovation Grants program requires that states receiving grants develop measures and performance outcomes over the lifetime of their projects.<sup>44</sup>

#### FY 2002 MANAGEMENT'S REPORT ON AUDITS

EPA continues to make progress in reducing the number of audits without final corrective action as well as strengthening its audit management practices Agency-wide. In FY 2002 EPA was responsible for addressing the OIG's recommendations and tracking follow-up activities on 412 audits. During the fiscal year the Agency achieved final action on 164 audits.<sup>45</sup>

Following is a summary of the Agency's audit management activities for FY 2002:

**Final Corrective Action Taken:** EPA completed final corrective action on 24 performance audits and 140 financial audits. Of the 140 financial audits, the OIG questioned costs of more than \$22 million. After careful review, the OIG and the Agency agreed to disallow \$11 million of these questioned costs. For this period, EPA

management and the OIG did not identify audits for which resources could be better utilized (i.e., funds put to better use) based upon findings in a performance audit.

**Final Corrective Action Not Taken:** As of September 30, 2002, 118 audits were without final action (excluding those audits with management decisions under administrative appeal by the grantee). Of these 118 audits, EPA officials had not completed final action on 23 audits (20 percent) within 1 year after the management decision.

**Audits Awaiting Decision on Appeal:** EPA regulations allow grantees to appeal management decisions on financial assistance audits that seek monetary reimbursement from the recipient. In the case of an appeal, EPA must not take

action to collect the account receivable until the Agency issues a decision on the appeal. As of September 30, 2002, 68 management decisions were in administrative appeal status.

# **Audits Pending Final Corrective Action Beyond 1 Year:** Because of the complexity of the issues, it often takes Agency management longer than 1 year after management decisions are reached with the OIG to complete corrective actions on audits. Beginning October 1, 2002, management will track 23 audits with outstanding

corrective actions after the 1-year period.

These audits are categorized by three types: program performance audits (14), assistance agreement audits (4), and single audits (5). These audits are discussed below by category and identified by title and responsible office. Additional information on these audits is available, upon request, from OCFO's Audit Management Team (202-564-3633).

Audits of Program Performance: Final action for program performance audits occurs when all corrective actions have been implemented. This process might take longer than 1 year when corrections are complex and lengthy. These audits include audits of EPA's financial statements. EPA is tracking 14 audits in this category.

# Office of Prevention, Pesticides & Toxic Substances:

101378 Pesticides Inerts	
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304030 Pesticides Banned (follow-up)

#### Office of Solid Waste and Emergency Response:

P00007	RCRA Financial Assurances
P00028	RCRA Corrective Actions

S00007 EPA Actions Concerning Libby SF Site P00011 Superfund Interagency Agreements

#### Office of Enforcement & Compliance Assurance:

P00018	Multimedia Enforcement
P00019	Air Enforcement Stack Tests

# Office of Administration and Resource Management:

P00029 Interagency Agreements Follow-up P00011 Superfund Interagency Agreements

#### Office of Environmental Information:

501240 PCIE Application Maintenance

#### Office of Water:

701142 Animal Waste Disposal Issues 701223 Mining Financial Assurance

#### Region 2:

P00001 Combined Sewer Overflows

Audits of Assistance Agreements: Final action for assistance agreement audits can take longer than 1 year because the grantee may appeal, refuse to repay, or be placed on a repayment plan that spans several years. The Agency's Audit Follow-Up Coordinators are tracking four audits with financial or associated corrective actions taking longer than 1 year to complete.

#### Region 3:

102023 Bath County Service Auth VA

#### Region 5:

100001 Sauget
 103115 Galion, OH
 104047 Indianapolis, IN 4

Single Audits: Final action for single audits occurs when non-monetary compliance actions are completed. This might take longer than 1 year to implement if the findings are complex or the grantee does not have the resources to take corrective action. Single audits are conducted of nonprofit organizations, universities, and state and local governments. EPA is tracking completion of corrective action on five single audits for the period beginning April 1, 2002.

#### Region 2:

300108 United States Virgin Islands

#### Region 5:

300047 Red Lake Band of Chippewa Indians 300048 Red Lake Band of Chippewa Indians

#### Region 9:

805053 Colorado River Indian Tribes, AZ 805059 Colorado River Indian Tribes, AZ

DISALLOWED COSTS AND FUNDS PUT TO BETTER USE						
	Disallowed Cost (Financial Audits)		Better Use (Performance Audits)			
Category	Number	Value	Number	Value		
Audits with management decisions but without final action at the beginning of FY 2002	102	\$153,237,895	30	\$0		
Audits for which management decisions were reached in FY 2002	131	\$7,015,479	19	\$0		
Total audits pending final action during FY 2002	233	\$160,253,374	49	\$0		
Final action taken during FY 2002:	140	\$10,434,962	24	\$0		
<ul> <li>(i) Recoveries</li> <li>(a) Offsets</li> <li>(b) Collection</li> <li>(c) Value of Property</li> <li>(d) Other</li> <li>(ii) Write-offs</li> <li>(iii) Reinstated Through Grantee Appeal</li> <li>(iv) Value of recommendations completed</li> <li>(v) Value of recommendations management decided should/could not be completed</li> </ul>		\$5,179,343 \$1,795,202 \$0 \$0 \$281,354 \$3,179,063		\$0 \$0		
Audits without final action at end of FY 2002	93	\$149,818,412	25	\$0		

#### KEY MANAGEMENT CHALLENGES

(Prepared by EPA's Office of the Inspector General)

#### TIER ONE

## **Linking Mission and Management**

EPA can be viewed as a business which must deliver improved environmental and human health protection to its customers, the American people, at a reasonable cost. To tell its story of performance in relationship to goals, the Agency must develop more outcome-based strategic and annual targets in collaboration with its partners. EPA has output data on activities, but few environmental performance goals and measures, and little data supporting the Agency's ability to measure environmental outcomes and impacts. Reliance on output measures has made it

difficult for EPA to provide the regions and states the flexibility they need to (1) direct resources to their highest priority activities, or (2) assess the impact of Agency work on human health and the environment. Better performance measurement and financial accountability can be achieved through clearly linked, meaningful performance measures with defined environmental outcome goals. To be accountable to the American people, EPA and its partners need to capture and report consistently meaningful and timely environmental and human health results, along with cost information.<sup>46</sup>

The Agency plans to issue a draft report on the environment in FY 2003 that will bring together national, regional, and program office indicator efforts to describe the condition of critical environmental areas and human health concerns. Perfecting this report will be a multi-year process, but preparing the report is a significant step forward. It will allow the Agency to inventory and report on existing indicators, identify data gaps, and develop plans to address the challenges in filling these gaps.<sup>47</sup>

In response to the need for reliable cost information, the Office of the Chief Financial Officer (OCFO) has purchased a financial management business intelligence reporting tool for managerial cost accounting and reporting. OCFO will work with selected offices to define and develop program-specific and executive reports to help managers analyze data to support resource decisions, manage costs, and gauge program results. 48 As the Agency implements cost accounting, its success will rely on how well EPA program offices (1) define their mission-critical activities; (2) identify data needs, determine whether such data exists and, if so, where it resides; (3) link information systems to optimize data usability and minimize data integrity concerns; and (4) technically design program-specific and executive cost reports using the new reporting tool. OCFO will need to work closely with each program office in these areas for its cost accounting solution to be successful Agency-wide.

During the past year, EPA examined options for improvements in its ability to manage for results and account for resources. In June 2002, senior Agency leaders issued a draft report to the Administrator recommending specific changes in four areas: Planning, Performance Measurement, Accountability and Feedback, and the Agency's Capacity to Manage for Results. The steering group also suggested improvements for the 2004 budget process, and will develop a change strategy for memorandum of understanding agreements between national program managers and regions regarding annual work planning. 49

EPA has begun developing the process for linking costs to goals but must follow through by working with its regional offices and state and

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federal partners to develop appropriate outcome measures and accounting systems that track environmental and human health results across the Agency's goals. This information must then become an integral part of senior management's decision-making process.<sup>50</sup>

# **Information Resources Management and Data Quality**

EPA faces a number of challenges with the data it uses to make decisions and monitor progress against environmental goals. Those challenges cover a broad range of interrelated activities including (1) using enterprise and data architecture strategies to guide integration and management of data; (2) implementing data standards to facilitate data sharing; and (3) establishing quality assurance practices to improve the reliability, accuracy, and scientific basis of environmental data, including data derived from laboratories.<sup>51</sup> EPA and most states often apply different data definitions supporting their own information systems, and sometimes collect and input different data resulting in inconsistent, incomplete, and obsolete consolidated national data.

EPA acknowledges IRM data management as an Agency-level weakness and has specifically targeted various components for improvement. However, developing a robust data management program remains a complex and elusive effort, and several areas still need to be completed.<sup>52</sup> For example, the Agency has yet to implement a 1998, agreed-upon, OIG recommendation to formally revise its policies and procedures supporting an Agency standards program.<sup>53</sup> EPA developed and formally approved seven data standards; however, states will be allowed to decide whether or not to adopt these standards.<sup>54</sup> Data standards are a fundamental component for implementing EPA's National Environmental Information Exchange Network and other e-government initiatives.55 If EPA's exchange network infrastructure is to work effectively, the use of data standards should be a required condition for receiving money under the Exchange Grant Program.

EPA estimates that the first six standards will not be implemented in major environmental systems until the end of FY 2003.<sup>56</sup> During the interim, EPA is working with the Environmental Council of States (ECOS) to identify and develop additional data standards. However, past experiences suggest that the overall process needs to move forward in a more timely and structured manner.<sup>57</sup>

Data reliability is another major aspect of data management that needs further attention. Recent audits indicate systems used by EPA's Enforcement, Superfund, and Water programs have inconsistent, incomplete, and obsolete data. For example, we are concerned that the system EPA uses to manage its drinking water programs, SDWIS-FED, is not well designed and implemented.58 Also, data in two major Agency systems contain significant error rates in crucial data fields used to track environmental progress on Government Performance and Results Act (GPRA) goals and measures. 59 For example, over 90 percent of the cases reviewed within EPA's National Enforcement Docket System contained errors.60

The Agency has responded to data quality concerns by instituting an Integrated Error Correction Process, which provides a mechanism for reporting and resolving errors identified by the public on EPA Web sites. <sup>61</sup> Last year, EPA drafted a Data Quality Strategic Plan to prioritize recommendations for improving the quality of currently collected data, but the draft plan did not address the long-recognized problem of data gaps. <sup>62</sup> EPA plans to issue its first *Environmental Indicators Report* in 2002, which should help identify gaps between existing and needed environmental data. <sup>63</sup>

Questionable analyses by laboratories raise concerns about the effectiveness of environmental decisions and lead to additional costs and unnecessary delays when EPA has to identify and assess the impact of the fraudulent data and undertake additional sampling. In a June 1999 memorandum to the Acting Deputy Administrator, the OIG suggested actions the Agency could take to better identify data of questionable quality. Ongoing lab fraud

investigations in FY 2002 indicate that despite Agency efforts to ensure improved data quality, manipulated data continues to be generated and supplied to EPA.

OIG reviews and investigations have disclosed a disturbing trend in the number of environmental laboratories that are providing misleading and fraudulent data to the states for monitoring the Nation's public water supplies. For example, several current lab fraud investigations involve severe manipulation of data used to evaluate the compliance of public water supplies with federal drinking water standards. Many other EPA programs (e.g., Superfund, Resource Conservation and Recovery Act, National Pollution Elimination and Discharge System, air toxins, underground storage tanks, and pesticides) have also been impacted by laboratory fraud. 64

The Agency has conducted extensive technical systems assessment audits at all EPA regional and research laboratories. In addition, EPA has provided fraud detection and awareness training and ethics training; studied electronic methods for screening data; and issued guidance discussing the level of quality assurance given the intended use of data. These efforts should help to improve the quality assurance systems and documentation throughout the Agency's environmental laboratories. However, until the impact of these and any other recommended actions is realized, EPA must continue to assess and improve its controls over laboratory data quality.65 In its mid-year Integrity Act report for FY 2002, the Agency considered laboratory quality to be an Agency weakness.66

As a result of current shortcomings, EPA will not have the foundation needed to share or compare information, or to monitor environmental activities in the near future. EPA's ability to make environmental decisions, enforce environmental laws and evaluate the outcomes of its programs in terms of environmental changes may continue to be limited by gaps and inconsistencies in data quality. EPA needs to continue to identify what data is necessary to manage its programs and work with its partners

to capture and report timely, accurate, and consistent information.<sup>67</sup>

## **Employee Competencies**

One of the Agency's greatest challenges is the development and implementation of a workforce planning strategy that links employee development to its goals. To achieve its environmental goals and objectives, EPA must have a competent, well-trained, and motivated workforce with the right mix of skills and experience, and a system for holding employees accountable for achieving strategic goals.<sup>68</sup>

The General Accounting Office (GAO) reported that EPA needs to implement a workforce planning strategy to determine the skills and competencies essential for meeting current and future needs and improve employee training.<sup>69</sup> A number of OIG reports also highlighted the need for improved training at EPA. 70 Acknowledging that appropriate training is critical to ensuring the credibility of its actions, the Agency (1) fostered a series of management development programs; (2) established a contract to develop training for mid-level professionals and managers; and (3) initiated a contract to create a workforce planning model to identify skills needs and gaps, and target recruitment and retention for critical occupations.71

GAO recently testified that EPA has made substantial progress in developing a strategy to manage its workforce, yet it also acknowledged that EPA still needs to integrate this strategy into its daily business practices. In particular, EPA must:

- Specifically address how human capital activities will help achieve environmental goals.
- Identify milestones for completing actions to implement its human capital objectives.
- Further its commitment to deploy the strategy by dedicating resources.

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• Help regions and program offices develop specific technical training plans that link into the human capital strategic plan.

 Establish results-oriented performance measures.<sup>72</sup>

The Agency recognized human capital as a key Agency priority in its FY 2001 Strategic Plan. In response to OIG and GAO recommendations, EPA also began implementing a Human Capital Strategic Plan. The plan calls for identifying the skills needed in every program unit by assessing future needs, identifying skills gaps, and tying skill needs to future budget requests. In calendar year 2003, EPA plans to complete a model workforce planning process and deploy a system that will meet the Agency's competency-based workforce planning needs.<sup>73</sup>

While progress has been made and additional work is planned, this area continues to be a key challenge. In a recent briefing, EPA provided information to the OIG concluding that staff has limited experience in non-traditional, collaborative approaches to environmental problem solving. Training is needed to develop management skills to better focus on outcomes and do business with EPA partners.<sup>74</sup> The OIG will continue to monitor the Agency's progress in developing a system that ensures a welltrained and motivated workforce with the right mix of skills and experience. Implementation of the Human Capital Strategic Plan is an Agencylevel weakness under the Federal Managers Financial Integrity Act.75

# EPA's Use of Assistance Agreements to Accomplish Its Mission

Assistance agreements constitute approximately one-half of EPA's budget and are the primary vehicles through which the Agency delivers environmental and human health protection. <sup>76</sup> Thus, it is important that EPA and the public receive the value for which the Agency has paid.

OIG audit work has repeatedly identified problems in this area. Recent OIG audits reported that some EPA assistance recipients did not have adequate financial and internal controls to ensure federal funds were managed properly. As a result, EPA had limited assurance that grant funds were used in accordance with work plans

and met negotiated environmental targets. For example, an EPA Region 5 grantee could not adequately account for over half of its \$300,000 in EPA funds.<sup>77</sup> Also, a Region 1 grantee had submitted multiple financial status reports with different ending balances, had excess federal funds on hand, and could not support that it had met the minimum cost-sharing requirement.<sup>78</sup> Misuse of grant funds also resulted in the City of Cleveland agreeing to settle a civil lawsuit charging that its Air Pollution Control Program improperly spent over \$429,000 in grant funds.<sup>79</sup>

Further, in May 2001, the OIG reported that EPA did not have a policy for competitively awarding \$1.3 billion in discretionary assistance funds and recommended such a policy be developed. The Agency agreed and is drafting a policy to address competition in the award of discretionary assistance funds.<sup>80</sup>

The Agency has taken several actions to improve its oversight controls over assistance agreements, including requiring additional training for all project officers and issuing policy on project officer and grant management oversight roles and responsibilities.81 However, recent reports and ongoing work indicate that Agency efforts to improve assistance agreement management are still not uniformly effective. In March 2002 the OIG reported that the Agency did not always measure whether assistance agreements awarded as surveys, studies, investigations, and special purpose grants achieved results that contributed to protecting human health and the environment.82 The OIG reported that EPA lacked assurance that \$187 million spent by assistance agreement recipients for procurements was used to obtain the best products, at the best price, from the most qualified firms.83

Ongoing OIG work shows that some Agency actions to address grant oversight weaknesses have not been effective. For example, the Office of Administration and Resources Management developed post-award monitoring policies, but these policies were not always followed. On-site evaluations, and oversight and baseline monitoring of assistance agreements by grant specialists were not sufficient to assure that

agreement recipients were complying with the requirements of the grants and are appropriately using EPA funds.<sup>84</sup> In May 2002 OIG recommended the Agency elevate this issue from an Agency weakness to a material weakness under the Integrity Act.<sup>85</sup>

## Protecting Critical Infrastructure From Non-Traditional Attacks

In 2001 OIG reported that EPA had yet to fulfill its responsibilities under Presidential Decision Directive (PDD) 63 regarding the development of a national framework for protecting critical physical and cyber-based infrastructures. 86 In the past year the Agency reported that it had made significant progress in completing many of the tasks outlined in a draft 1998 plan to develop a National Infrastructure Assurance Plan. 87 However, the attacks of September 11, 2001, greatly increased the scope and priority of EPA's mission in protecting critical infrastructure.

The July 2002 National Strategy for Homeland Security, issued by the Office of Homeland Security, designates EPA as the lead agency for protecting critical infrastructure and key assets in the water and chemical industry and hazardous materials sectors.88 This responsibility is consistent with the Agency's traditional oversight role in water and wastewater infrastructure security and the cleanup of chemical, biological, and certain radiological attacks; and as the primary regulator of chemical facilities. Thus, EPA must be prepared to fulfill crisis and consequence management responsibilities in the wake of a terrorist incident and it must be prepared to help detect, prevent, protect against, respond to, and recover from a terrorist attack against the United States.<sup>89</sup> Moreover, Public Law 107-188, the Public Health Security and Bio-terrorism Response Act, signed in June 2002, specifically tasked EPA with funding and overseeing water system vulnerability assessments and the resulting response. 90 The Agency's infrastructure protection needs have been further defined by the lessons it learned from the World Trade Center response and the cleanup of the anthraxcontaminated buildings.91 These combined

challenges are identified and addressed in EPA's draft Strategic Plan for Homeland Security. Among the many infrastructure protection challenges contained in the plan are the following:

- To assist water and waste water utilities in every community in the United States to (1) access the best scientific information, training, and technical expertise on water security; (2) assess their utility's vulnerabilities to a possible attack; (3) take action to improve security; and (4) respond effectively and efficiently in the event that an incident occurs. 92
- To develop a water utility security research plan and establish a technology verification program for water utility security as well as to evaluate promising technologies.<sup>93</sup>
- To support and develop the preparedness of state and local governments and private industry to respond to, recover from, and continue operations following a terrorist attack. For example, EPA will work with other agencies to ensure that building air protection guidance is produced and widely disseminated, and that training on such guidance is available. EPA will also work with our partners in other federal agencies, academia, industry, and public health organizations to identify and conduct research on needed technologies, as appropriate.<sup>94</sup>

To achieve the goals in EPA's Strategic Plan, the Agency will need to apply technical, organizational, resource, training, and communication assets to complex issues with unprecedented dispatch. Success will require simultaneous attention to questions of threat, capabilities and deficiencies, preparedness, management and oversight, and efficiency and effectiveness. The OIG plans to address these issues in its multi-year oversight of the Agency's implementation of its homeland security plan in support of the Office of Homeland Security.<sup>95</sup>

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# Challenges in Addressing Air Toxics Program Phase 1 and Phase 2 Goals

Toxic air pollution remains one of the most significant health and environmental problems in the United States, causing cancer, neurological, immunological, and other serious health problems. 96 Despite the potential for serious harm, EPA is nearly 2 years behind in fulfilling its statutory responsibilities for issuing all Phase 1 air toxics standards (also known as MACT standards<sup>97</sup>) by the November 2000 statutory deadline.98 Of 174 air toxics categories that EPA is required to regulate under the 1990 Clean Air Act, 99 EPA has issued MACT standards for about 86 categories. 100 The Agency's most recent estimate for completing the Phase 1 MACT standards is 2004. 101 EPA's delay in issuing the Phase 1 MACT standards was identified as an Agency weakness in 2001. 102

Of even more importance is that Phase 1 is solely a technology-based approach to emissions reductions, and may not provide acceptable health protections from exposure to air toxics. 103 EPA will assess the health risks of the 188 toxic air pollutants in the second phase of the twophased approach, known as the "residual risk" phase. 104 No Phase 2 residual risk standards have been completed. 105 The Science Advisory Board has questioned EPA's early efforts at assessing residual risks, 106 including whether the Agency might seek statutory relief from Phase 2. The Phase 2 residual risk determinations are expected to be expensive and controversial based on the limited amount of air toxics health data available and the projected costs of compliance for industry. 107 Although the Clean Air Act listed 188 air toxics that EPA must control, to date the Agency has focused largely on 33 of the suspected worse air toxics prevalent in urban areas. 108 Significant data gaps in our understanding of these 33 highest priority air toxics still exist. 109 Additionally, EPA has limited health and ecological effects information, exposure data, emissions data, source characterization data, and ambient data on many of the remaining 155 air toxics. 110

At the present time, the air toxics program relies heavily on industry emissions data for its

GPRA measures, some of which are generated by using inferior emission estimation techniques. The lack of a robust set of ambient monitoring data on the quantity and concentrations of air toxics is also a concern. Defence that mobile sources may contribute half of all air toxics emissions, and there is little health data on the synergistic impacts of exposures to multiple air toxics, such as the exposures that routinely occur in urban areas—the types of exposures that some scientists believe are the leading health impact from air toxics. The data of the synergistic impacts of exposures that some scientists believe are the leading health impact from air toxics.

EPA requested \$118 million for all air toxics activities for FY 2003, or about 20 percent of its clean air budget. 115 About one-third of the air toxics budget goes to 112 state and local agencies that have authority to implement existing air toxics regulations, including permitting and inspecting sources for air toxics. 116 EPA's goal is to eliminate the risks of cancer and other significant health problems from air toxics emissions for 95 percent of the U.S. population by 2020. 117 We will continue to monitor the progress EPA makes in addressing this important issue. 118

#### **TIER TWO**

#### **EPA's Working Relationship With the States**

According to ECOS, in FY 2001, the authority to implement about 80 percent of the environmental programs rested with the states, which provided about 65 percent of the financial resources to EPA's 35 percent. Accordingly, the Agency relies to a great extent on the states for environmental results, the data used to measure performance against standards, and for enforcement actions against violators. Yet, the Agency and states have been unable to agree on state flexibility and accountability issues. Relations remain strained due to disagreements over (1) respective roles and the extent of federal oversight; (2) priorities and budgets; and (3) results-oriented performance measures, milestones, and data. EPA can improve its working relationship with states by establishing a structure to mutually set direction, establish

goals, provide training, oversee accomplishments, and ensure accountability.<sup>119</sup>

The National Environmental Performance Partnership System (NEPPS) established EPA-state working partnerships to address complex environmental issues with scarce resources. One of the primary tools for implementing NEPPS, performance partnership grants (PPGs), allows states and tribes to combine multiple EPA grants into one.

A series of OIG audits on regional and state NEPPS program implementation (including PPGs) reported that NEPPS principles were not well-integrated into EPA because of the lack of (1) leadership providing a clear direction and expectations, (2) training and guidance, (3) trust in NEPPS due to fear of change and losing control, and (4) goals and related performance measures to monitor and measure progress on achieving better environmental results. <sup>120</sup>

Since the OIG began reporting on NEPPS, the Agency has been working to fulfill its potential. To address the lack of leadership and clear direction for NEPPS, the Agency formally designated the Assistant Administrator for the Office of Congressional and Intergovernmental Relations (OCIR) as the National Program Manager for NEPPS. OCIR has developed a strategy for NEPPS issues and is developing tools to promote better understanding of NEPPS and clarify appropriate expectations. 121

The current Administrator has also expressed a personal commitment to seeing NEPPS succeed and expand by (1) requiring regular reports from the Regional Administrators on how NEPPS is working; and (2) asking the Assistant Administrators, regions and states to jointly identify areas where flexibility is available and encourage testing new measures of program performance. In addition, EPA and ECOS are working jointly to remove remaining barriers to effective implementation of NEPPS. The Agency also solicited formal input from ECOS and the Tribal Caucus on state and tribal priorities for the EPA FY 2003 and 2004 annual planning and budgeting process. This information will be incorporated into EPA's strategic and annual planning processes and will influence the

development of performance goals and targets under GPRA.<sup>122</sup>

Although the Agency has taken some notable actions to improve EPA's working relationship with states, the OIG believes much remains to be done. For example, EPA and state managers continue struggling with ways of providing states flexibility to address their highest environmental priorities while implementing and reporting on core program requirements. In addition, EPA has not defined its performance measures and related milestones to monitor EPA and state progress toward accomplishing NEPPS and PPG goals. OIG is continuing to monitor the Agency's progress in addressing this important issue. <sup>123</sup>

#### **EPA's Information Systems Security**

EPA's information systems collect, process, store, and disseminate vast amounts of information used to help make sound regulatory and program decisions. Therefore, it is essential that the Agency prevent intrusion and abuse of these systems and protect the integrity of its data.

Under the leadership of the Office of Environmental Information (OEI), EPA is working toward its goal to make information on its computer systems available, while protecting the confidentiality and integrity of its information. The Agency has substantially enhanced its Information Security Program through improved risk assessment and planning processes, major new technical and procedural controls, issuance of new policies, and initiation of a regular process of testing and evaluation.

The dynamic nature of security, however, requires continued emphasis and vigilance. We believe the following actions are needed to protect the Agency's information and systems.

Implement a formal incident response plan.
 OEI is trying to address this need through draft guidelines and a strong working relationship with the OIG's Computer Crimes Unit. Also, a contract to develop an incident response capability will soon be awarded. Furthermore, an informal process has been agreed upon for timely referral of potential

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- incidents, coordination, securing of evidence, and other vital actions.
- Establish a robust quality assurance (QA) program. Without regular, effective oversight processes, EPA management will continue to place unsubstantiated trust in its many components to fully implement, practice, and document security requirements. Moreover, the public and Congress may continue to question how well the Agency plans for and protects its information resources. EPA's decentralized organizational structure makes it essential that OEI provide strong leadership and oversight to ensure the effectiveness of its entity-wide computer security program. OEI has begun addressing these responsibilities, but additional resources are needed to fully develop and implement QA processes Agency-wide. 124
- Implement an organizational structure under which Information Security Officers (ISOs) are accountable directly to the OEI. EPA's decentralized Wide Area Network infrastructure and its security procedures create serious vulnerabilities. Since intrusion detection sensors on the central network cannot track subnetwork activity, subnetwork security relies upon the expertise of assigned ISOs. The experience and training of the ISOs, as well as their methods of obtaining information and providing security maintenance vary greatly. Furthermore, OEI has no direct supervisory relationship over them since they report to and are evaluated by the regional or program offices to which they are assigned. This relationship makes it is difficult for OEI to mandate Agency-wide changes, deal with personnel issues and inefficiencies, resolve security conflicts, or detect and respond to security vulnerabilities on a subnetwork level. 125 In its mid-year Integrity Report for FY 2002, the Agency considered information security to be a material weakness. 126

# Backlog of National Pollutant Discharge Elimination System (NPDES) Permits

The Clean Water Act specifies that NPDES permits expire in 5 years. <sup>127</sup> Permittees wishing to continue discharging beyond that term must apply for permit renewal at least 6 months prior to the expiration date of their permit. <sup>128</sup> If the permitting authority receives a renewal application but does not reissue the permit prior to expiration, the permit may be "administratively continued." <sup>129</sup>

Administratively continued, or "backlogged," permits are a major concern because conditions may have subsequently changed since the original permit was issued, and new restrictions on permits may now apply. However, "backlogged" permits would not contain these new terms and conditions, thereby delaying potential environmental improvements to waters.<sup>130</sup>

The Agency recognizes that the backlog of NPDES permits is a nationwide problem and has developed a corrective action plan. <sup>131</sup> The plan includes (1) using new technology to streamline the permit development process, (2) providing environmental assessments and permit assistance to the states, and (3) communicating the importance of this issue to the states and EPA regional offices and receiving their firm commitments to reduce the backlog. <sup>132</sup>

Last year, EPA's goal was to reduce the backlog of NPDES permits for major facilities to 10 percent by the end of calendar year 2001 and to 10 percent for major and minor permits by the end of calendar year 2004. As of February 2002, only 18 states had met the 10 percent backlog goal for majors. During FY 2002, EPA drafted a system for prioritizing and reissuing backlogged permits to focus on those with the most significant environmental impact, but the Agency no longer expects to meet its 2004 goal. Corrective actions are not expected to be completed until the end of FY 2005.

The Agency realizes it needs to find new ways of implementing the NPDES program or the problem will increase. <sup>137</sup> Accordingly, it is

considering several innovative solutions to expedite permit renewal and prevent backlogs, such as issuing general permits for a class of similar facilities<sup>138</sup> and using information technology to expedite the entire permit development process.<sup>139</sup> It is also committing to provide increased contractor capacity for state permit issuance work.<sup>140</sup>

This issue was identified as an Integrity Act material weakness in 1998 and was reduced to an Agency weakness at the end of FY 2002. <sup>141</sup> OIG will continue monitoring EPA's progress in addressing this important issue. <sup>142</sup> Eliminating the backlog and making the permit issuance process more efficient will release resources for other important activities. <sup>143</sup>

#### **Management of Biosolids**

Approximately 6 million tons of sewage sludge ("biosolids") are produced annually by sewage treatment plants in the United States. 144 With inadequate treatment these biosolids may contain a wide variety of chemicals and pathogens, the remains of the sewage treatment process.145 The OIG believes that EPA (1) does not know whether current regulations, when adhered to, are protective of public health; 146 (2) does not have an overall understanding of the magnitude and quality of biosolids production and disposal practices;147 and (3) does not know if the enforcement and compliance resources committed to managing biosolids are adequate to ensure that the regulations are adhered to.148

EPA has not conducted the basic research needed to determine the risk associated with certain biosolids disposal practices. <sup>149</sup> The Agency has taken the position that biosolids management is a low-risk activity. <sup>150</sup> As a result, EPA has failed to adhere to its commitment to comprehensively assess the extent of the risk. <sup>151</sup> EPA issued Part 503 of Title 40 of the Code of Federal Regulations ("The Sludge Rule") to govern the use and disposal of biosolids in February 1993 under court order. When the Agency issued the rule, it committed to conducting a comprehensive research program to assess the risks associated with land

application of biosolids; however, it has not yet done so. <sup>152</sup> In June 2002 the National Academy of Sciences (NAS) recommended additional research. <sup>153</sup> EPA is currently studying those recommendations, and has committed to producing a research work plan by the end of 2003, nearly 11 years after committing to do so. <sup>154</sup>

EPA uses the Permit Compliance System (PCS) to manage water quality activities of point source dischargers such as sewage treatment plants, but the Office of Water (OW) has acknowledged that PCS is inadequate for managing biosolids. 155 EPA is unable to answer basic questions such as how much biosolids is land-applied. 156 As a result of this data gap, OW developed an independent system, the Biosolids Data Management System (BDMS), to track compliance with biosolids regulations. 157 EPA is revising PCS, but has not yet decided whether to incorporate BDMS into this new version. According to OW, "the ultimate usefulness of the BDMS on a national basis is likely dependent upon its adoption into PCS."158

EPA has diverted compliance and enforcement resources away from this program.

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The safety of biosolids land application depends on the adherence to highly technical treatment standards by land applicators across the country. In a 2000 report OIG found inadequacies in EPA's management and enforcement of the biosolids program. <sup>159</sup> In a status report on the biosolids program published 2 years later, OIG reported a further 44 percent reduction in full-time equivalent (FTE) positions (from 18 to 10). <sup>160</sup> This is a particular concern because EPA runs the biosolids program in 45 states. <sup>161</sup> Adequate oversight of this program is critical for ensuring regulatory compliance. To date, EPA has not committed the resources needed to fulfill its oversight responsibilities.

In convening a committee to study the NAS recommendations EPA is beginning to address these issues. Several issues remain unsettled and the OIG is not convinced that the Agency is directing adequate resources to resolving these concerns. OIG will continue to monitor EPA's progress in this area until these issues are settled. In May 2002 the OIG recommended this issue as an Agency weakness under the Federal Managers Financial Integrity Act. In May 2012 Integrity Act.

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- 143. U.S. EPA, Financial Management Five-Year Plan FY 2002–2007, p. AI-14; U.S. EPA, Fiscal Year 2001 Annual Report, p. III-18.
- 144. National Academy of Sciences, *Sewage Sludge Standards Need New Scientific Basis*. Available at <a href="http://www4.nas.edu/news.nsf/isbn/0309084865?OpenDocument">http://www4.nas.edu/news.nsf/isbn/0309084865?OpenDocument</a>.
- 145. Ibid.
- 146. Biosolids Management and Enforcement, p. ii.
- 147. Ibid., p. 30.
- 148. Ibid., p. 18.
- 149. National Academy of Sciences.
- 150. *Land Application of Biosolids*, 2002-S-000004 (March 28, 2002), p. i.
- 151. Ibid., p ii.
- 152. Ibid., p.18.
- 153. National Academy of Sciences.
- 154. Letter from Tracy Mehan and Paul Gilman to EPA regions and State Commissioners (October 31, 2002).
- 155. *Biosolids Management and Enforcement*, pp. 30, 44.
- 156. Ibid., p. ii.
- 157. Ibid., p. 20.
- 158. Memorandum from Office of Water responding to OIG's nomination of biosolids as a major management challenge (e-mail from Brigid Rapp of OCFO to Kwai Chan and Dan Engelberg, August 29, 2002), p. 2.
- 159. Biosolids Management and Enforcement, p. ii.
- 160. Land Application of Biosolids, p. i.
- 161. Ibid.
- 162. OIG Conclusion.
- 163. Memorandum from Nikki Tinsley to Linda Combs (May 20, 2002), p. 4.